



# Trade Developments



MARCH 2005

## USAID Supports Cambodia's Garment Sector in Transition

### *Project Summary*

Following the January 1, 2005 elimination of global quotas on trade in textiles and apparel, Cambodia's garment sector faces heightened competition from large, low-cost suppliers whose exports had been constrained by those quotas.

#### **Filling a Need: Factory-level Labor Productivity Survey**

In June 2004, the USAID mission in Phnom Penh, Cambodia commissioned a scoping study of activities supporting Cambodia's garment sector. The study identified services being provided to help preserve a market niche for Cambodia's garment exports after the expiration of international textile and clothing trade quotas. Among the more important of these are the International Labor Organization's labor standards compliance monitoring and pilot remediation program, the Asian Development Bank's preparation of a Cambodian garment industry strategic action plan, and the World Bank's Foreign Investment Advisory Service's (FIAS) survey of American and European buyers of Cambodian garments to determine the feasibility of branding Cambodia

as a socially responsible platform from which to manufacture.

To complement these activities, and in recognition of the importance of productivity growth to firm-level competitiveness and national economic growth, USAID/Phnom Penh and USAID's EGAT are together supporting a factory-level survey of the determinants of labor productivity in Cambodia. Targeting 85-100 firms for inclusion in its sample, the survey will

- Provide technical performance benchmarks of individual firms;
- Analyze the significance and relative importance of determinants of Cambodian labor productivity using econometric statistical methods;
- Forge a common understanding of labor productivity issues between management and labor in Cambodia; and
- Help prioritize further steps to promote the industry.

Firm-level data were collected for two kinds of analysis. The first is a benchmarking analysis that identifies performance gaps of individual compa-

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nies. The second is an econometric analysis that determines which variables have a significant effect on labor productivity (measured as value-added per worker hours) across the sample, and the degree of relevance of each of these. Data were collected through (1) structured on-the-job and on-the-shopfloor interviews by technical consultants and (2) formal questionnaires designed by a local research firm. Use of a formal questionnaire ensured that collected data sets were standardized across firms.

## Consulting Team

USAID/Phnom Penh asked the USAID/EGAT-supported Trade Capacity Building (TCB) Project, implemented by Nathan Associates Inc., of Arlington, Virginia ([www.tcb-project.com](http://www.tcb-project.com)), to provide services to design and implement this study, and present findings and recommendations. Lynn Salinger, author of the original scoping study, was Team Leader and Senior Investigator for this activity. Ms. Salinger is a senior economist and 20-year member of the staff of Nathan Associates' partner firm, Associates for International Resources and Development (AIRD), based in Cambridge, Massachusetts. Industry specialists from Nathan Associates' partner firm Werner International, a global textile and apparel industry consulting firm, conducted technical productivity benchmarking and adapted Werner's benchmarking methodology to Cambodia's needs. The Economic Institute of Cambodia (EIC), a Cambodian research firm, supported the Nathan-AIRD-Werner team by collecting baseline quantitative data from the survey sample.

## Approach and Timeline

**1. Finalization of survey methodology.** The organization of the study began in December 2004. In early 2005, the Nathan team identified themes and variables to be considered in the survey and analysis; developed a prototype survey questionnaire; and identified, through a competitive bidding process, a Cambodian research firm to help administer the survey in Cambodia.

**2. Survey and data analysis.** The Nathan team met with local stakeholders and donors, trained local research partners, pre-tested the survey design, modified the survey instrument as necessary, decided on a sample size and sampling criteria, and conducted firm-level interviews in February and March 2005.

**3. Presentation of findings.** Firm-level benchmarking reports were prepared in the field and provided to firms that participated in the survey. The consultants then analyzed panel data across the sample, drawing some overall conclusions about productivity, cost, and efficiency in the sector against that in global "best practice" settings. A labor productivity model was specified to estimate the significance of contributions of independent variables. Results and recommendations will be presented to stakeholders in Cambodia in May 2005.

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